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UNITED STATES DEPARTMENT OF AGRICULTURE

BULLETIN No. 178

Contribution from the Office of Markets and Rural Organization
CHARLES J. BRAND, Chief

Washington, D. C. ▼ March 1, 1915

COOPERATIVE ORGANIZATION BUSINESS METHODS

By

W. H. KERR, Investigator in Market Business Practice, and
G. A. NAHSTOLL, Assistant in Cooperative Organization Accounting

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INTRODUCTION.

In the promotion of a cooperative enterprise there is a tendency to look only upon the opportunities of the business itself and the great benefits to be derived therefrom, disregarding the equally important matters concerning the formulation of plans and the adoption of methods for the successful conduct of the business.

There is considerable excellent business literature dealing with special phases of various business activities, but there is very little which deals directly with the business of cooperative agricultural marketing organizations. This bulletin has been prepared to meet the demands for data relating to the business requirements of these organizations. Many of its discussions are somewhat elementary, but there is need for just such discussions, since there are many persons connected with cooperative organizations who are unfamiliar with these questions. This is the first of a series of bulletins the department intends to issue which will deal with the business methods of cooperative agricultural marketing organizations, and it may be termed a general bulletin in that it covers matters of interest to all

forms of these organizations. In the others it is planned to deal with the business requirements of specific classes, such as produce, deciduous-fruit, citrus-fruit, elevator, creamery, and various other organizations, and to present systems of accounts and information of special value to the type of organization for which they are written.

SYSTEMS OF ACCOUNTS.

ACCOUNTING RECORDS NECESSARY.

Accurate records and accounts are essential in the management of every business enterprise, great or small. The failure of many cooperative organizations for marketing farm products has been traced either directly or indirectly to the lack of proper accounting systems.

The very life of a cooperative organization depends on the confidence reposed in it by its members and on their knowledge that the affairs of the organization are conducted in a businesslike manner and that each transaction is recorded clearly and accurately in books of account. Such records will tend greatly to increase confidence. The organizations which keep accurate records will also be in a better position to command the necessary financial assistance from bankers and credit men, when such help is needed, than associations having lax systems of accounting records.

When markets are bad or the quality of the product inferior, causing low prices, the faith of even the most loyal members is often slightly shaken. In such cases assurance can be reestablished quickly by having the records of all transactions in such shape that the members can trace their deliveries through the books from the time they are received by the association to the date of settlement.

WHAT IS SYSTEM?

The fact must be kept in mind that business systems do not consist entirely of forms. The most perfect set of forms ever drawn is worthless without the organized effort to use them properly.

System is organized effort, and every business must be conducted under some sort of prearranged plan, so that there is unity of effort, making each pound of effort expended further the objects of the organization's existence. Care should be taken in choosing a system for a cooperative organization to see that it hangs together, each part being in complete accord with every other.

BOOKKEEPING.

Bookkeeping may be defined as the systematic and chronological recording of financial transactions. It is the medium through which accounting results are obtained. There are two methods of bookkeeping, single entry and double entry.

DOUBLE VERSUS SINGLE ENTRY.

For records of a cooperative organization the double-entry system is the only one worthy of consideration. Accounting for any business based on single entry should be discouraged. The double-entry system is the only one affording a complete check.

"Single entry," as one well-known authority says, "is the recording of business transactions without regard to scientific principles. The term is rightly applied to any method of recording business transactions other than by the double-entry method. It is unscientific because it is incomplete and therefore can not reflect the true condition of affairs or the results from operations."[1]

Double entry is the scientific method and provides a complete record of business transactions in such a manner as to show the effects of such transactions upon the assets, liabilities, capital, surplus, and revenue, and also to show the expenses of the business.

The equalization of debit and credit in every transaction, which is secured by all double-entry records, guarantees the mathematical accuracy which is a most important feature.

BOOKKEEPING POSSIBLE WITH FEW BOOKS.

Only two books are absolutely necessary for a complete and systematic record of the financial transactions of a business, the journal and the ledger. The journal presents the record of business transactions in chronological order, while the ledger shows the same classified as to the respective accounts. The great number of books now used as accounting records are but forms of these two books, and the principles of double-entry bookkeeping apply in both cases.

REQUIREMENTS OF A SYSTEM FOR A COOPERATIVE ORGANIZATION.

The first study of a manager should be of the business contemplated and of the best methods for carrying out the objects of the organization. Then a study should be made of the best method of recording the business transactions properly. After such a study, a complete business system should be worked out.

A cooperative organization acts as the agent of the grower in the marketing of his product, and a system for such an organization must not only contain the usual accounting records showing the assets and liabilities, profits and losses, and the receipts and disbursements of cash, but it must show a clear record of each grower's shipments from the time of delivery until payment has been made. The system must be capable of taking care of the maximum volume of business during the height of the shipping season and provide

[1] Bentley, Harry C. The Science of Accounts. New York, Ronald Press. See p. 17.

the quickest and most efficient method of returning to the grower the proceeds of his product. It must provide for a record which not only will show every detail, but which is so arranged as to allow instant reference.

Many cooperative organizations have adopted the system of pooling, which necessitates the prorating of returns on like grades of fruit and produce. The record of this pool should therefore be clear as to time, shipments covered, and average prices obtained, so that any discrimination can be shown quickly.

Auxiliary accounts, whether of money or items, should be checked in the same manner as those of the financial system. To be of any useful purpose these records must be absolutely accurate.

NO TWO ORGANIZATIONS EXACTLY ALIKE.

No two organizations in the United States work under exactly the same conditions. Plans of organization, methods of selling, varieties of products, local conditions, and various other things which affect the accounting will be different for each organization. Hence it is necessary for the manager to see that any forms or systems selected are best fitted to conduct his particular business, for every organization will have some peculiarities of its own, which will require the working out of a method best adapted for keeping the record of such transactions.

No cut-and-dried system of forms is ideal for any organization, yet the adding of a column here and there, or some slight change, will often adapt a form to the particular requirements of a business.

Small organizations often adopt bodily the forms of other, perhaps larger, organizations, working under an entirely different plan, thus providing themselves with forms not at all suited to their needs.

ACCOUNTING FORMS.

In the preparation of forms great care should be exercised to include only that which is necessary. Great saving of labor is effected by the use of columnar books. However, to add column after column to any particular book for accounts to which there would be but few entries monthly would only make the book cumbersome and serve to offset some of the advantages to be derived from the use of columnar books.

Forms of statements showing returns or ledger accounts of growers should be so headed and constructed as to be perfectly plain and intelligible at first glance. They should be headed in such a way that growers will know their use immediately, as, for instance, "Grower's receipt," "Statement of returns for fruit shipped by

———," "Statement of grower's ledger account." Also columns should be headed "Charges," "Credits," and balances should be designated as "Balance due grower," "Balance due exchange."

LABOR-SAVING DEVICES.

There is often a mistaken idea of economy in regard to any expenditure for the installation of an up-to-date accounting system, the employment of competent help, and the introduction of various labor-saving devices. The cost of an adding machine or calculating machine may seem large, but may save its original cost by the elimination of extra help during the first year, providing the volume of business is sufficient to make its use economical. Columnar development, loose-leaf systems, card systems, the carbon copy, have all lessened the routine of the bookkeeper and made modern bookkeeping both possible and economical.

The use of loose-leaf systems will be found of advantage, as this method permits the elimination of dead accounts and the division of labor as the accounting work increases during the heavy shipping season. The use of carbon copies has made it possible to do away with many duplicate entries of the same information. There are numerous devices for reducing the cost of accounting, each of which serves its particular purpose, and any one of which may be admirably adapted for specific purposes in an office.

THE OFFICE MANAGER.

The office of every cooperative organization must be modeled according to the prevailing conditions of the business, and it is necessary to place the office work in charge of a person fully competent and trained to cope with these conditions, thus relieving the general manager of the necessity of handling details.

The time of the general manager is valuable to the business in outlining the large matters of policy and directing all the forces that make for a larger and better concern. He should not be expected to give time to office details when the volume of business is sufficiently large to require as his right-hand man an efficient office manager, one who can successfully carry on the work connected with the records.

The office manager should be an accountant, and it is preferable that he be thoroughly familiar with the type of the organization the office of which he is to direct. This knowledge is the first essential toward making it possible for him to direct others, to give them an understanding of the organization's business policies, and to keep the office force in harmony with these policies. In the smaller organizations the entire force consists of but one man. Here, as

well as in the larger organizations, knowledge of accounting and of the business principles involved in the particular type of cooperative organization are essential, as the manager in these cases must perform all the accounting duties in addition to those of the general manager. The office manager of the small organization is relatively just as important a personage in helping to promote or defeat the objects of the cooperative scheme as is the office manager of the largest organization.

The office manager should have executive ability and a broad point of view, combined with the ability to perceive the importance of details. He should have the power to direct others and the ability to maintain a happy, harmonious spirit throughout the organization.

In no other business is the quality of courtesy more essential. The office force deals in most cases with members who are part owners of the business, and who in all cases must be treated with courtesy. A spirit of enthusiasm should always be present in the office, in order that the grower may be impressed with the business-like appearance of everything—the activity, the openness of the business, the methods used, and the promptness and accuracy with which the work is done.

The office manager should keep in touch with other organizations and with the progress, development, and improvements in existing practices of cooperative organizations generally, thereby being in a position to take advantage of anything that will be of benefit to the office.

OFFICE EMPLOYEES.

In a great many organizations there is a rush during the marketing season, which usually does not extend over two or three months; this is followed by a season of comparative inactivity. The clerical help can not be retained during the dull season. This necessitates the breaking in of new men each year, and is a very unfortunate feature. One of the greatest employers of office help in this country claims that it costs $100 in loss of supplies, time, and training by higher salaried employees, in mistakes that must be corrected, etc., to break in each new clerk. If possible, at least all the head men in an office should be retained throughout the year. This applies to the small concerns where the manager and a helper are the only employees.

A great many organizations have introduced separate departments which handle commodities other than those which would come regularly under the head of growers' supplies, for the purpose of keeping the office force intact during the slack season of the year. In the case of some fruit associations this has taken the

form of a wholesale department which deals in a number of lines of merchandise such as are generally handled by wholesale grocers and commission houses; and in the case of grain elevators, lumber and coal and other supplies have been dealt in as side lines. These enterprises are engaged in not only to aid the members in buying these commodities at better prices, but to provide work for the office force when it is not engaged in the work of the regular shipping season. One of the large organizations in New England has established a fertilizer plant in connection with its already extensive dealings in growers' supplies, the business thus created warranting the retention of the entire office force throughout the year.

THE SECRETARY.

The duties of the secretary are usually clearly defined in the by-laws of the organization. He is the recording officer and keeps the corporation books, the minute book, the stock-certificate book, the stock ledger, and the transfer book. He also has charge of, and is responsible for, the seal of the organization.

Various matters involving corporate procedure constantly arise, and for the proper discharge of his duties the secretary should keep himself fully posted. A digest of the statutes of the State relating to corporations, a manual of parliamentary law, and a book on corporate procedure will be found of much assistance. A corporate calendar will also be found of great convenience. This is a calendar of the dates of the meetings of the directors and stockholders and of the dates on which notices for the same must be mailed. It is a comprehensive record of the important corporate formalities that must be attended to at fixed periods, such as the filing of reports, etc. By the use of such a book the secretary can tell at a glance what corporate duties require his attention.

It has been found advisable by some of the larger organizations to confer the titles and duties of secretary and treasurer upon officers other than members of the board of directors. Often the office manager is made both secretary and treasurer, by which arrangement there is no delay in securing signatures to papers when needed and the office force has the necessary authority to complete all business routine.

RECORDS OF MEETINGS.

Corporate meetings, both of shareholders and directors, being held for deliberative purposes, should be conducted according to parliamentary usages. The record of these meetings is the best evidence of the action taken, and other evidence is not admissible until it is shown that the records can not be obtained.

The minute book should contain the original transcript of the constitution and by-laws, a record of the amendments made from time to time, and a full account of the meetings both of stockholders and directors. These minutes should follow in proper order, be approved at the next meeting, and be signed by the proper officers as a certification of such approval.

In order to facilitate reference to the minute book a wide margin should be allowed on the left-hand side of the page, in which the subject can be stated or such other annotations made as will aid in locating the desired information.

The directors must act in a duly called meeting. They have no authority to bind the organization by their individual acts done outside the corporate meetings, and they can not vote by proxy. Unless a provision to the contrary is made, a majority of all the directors constitutes a quorum.

NOTICE OF SHAREHOLDERS' OR MEMBERS' MEETINGS.

The issuing of notices of meetings should be regulated by the by-laws. Notice by publication and through the mail are the most common and best methods. If the meeting is a special one, or if the business to be done is extraordinary or unusual, the notice must state the nature of the business to be transacted. It is best to give notice of adjourned meetings in the same manner as notice of other meetings, as a reminder to members.

TREASURER.

The by-laws should contain measures of safety to regulate the handling of all organization funds. Checks should be placed upon the official actions of the treasurer. Proper accounts should be kept, periodical audits made, and the prompt deposit of all funds and proper vouchers for all disbursements required. In the smaller organizations, where audits by public accountants are seldom made and the manager acts as office manager and bookkeeper, it is well to have the funds handled by a treasurer who is not connected with the office force.

SURETY BONDS.

All persons handling organization funds should be bonded. This bond should be sufficient to cover any loss which is reasonably probable. A surety company bond premium ranges from $4 to $7 per $1,000, and such a bond is superior to a personal bond. It is proper that the organization assume the expense of bonds for officials and employees.

FILING SYSTEMS.

Vertical filing cabinets, either wood or metal, have become standard equipment. These files are equipped with heavy press-board guides for indexing purposes and with folders in which the correspondence is placed. There are several systems of indexing in use; but two, however, the alphabetical and the numerical, need to be considered here.

THE ALPHABETICAL INDEX.

The alphabetical system is the most simple and perhaps the most practical method for the average-size organization. The guides are made up in sets of 25, 40, 60, 80, 100, or more. The simplest division—that of 25—contemplates a card for each letter of the alphabet with the exception of the letter M, which has an additional card for Mc, and the letters X, Y, and Z are placed on one card. The other sets further subdivide the alphabet. Under each guide separate folders are provided for all regular customers or frequent correspondents, and the name of each is indicated on the tab. A folder is also provided under each guide for the miscellaneous correspondence to be filed under that subdivision. This folder is often of a different color so as to be more easily distinguished. The alphabetical method of filing is probably better than the numerical because it is simpler and no index of any kind is required beyond the divisional guides with which the file cabinet drawers are equipped.

THE NUMERICAL INDEX.

In numerical indexing a number is assigned to each person with whom considerable correspondence is carried on. The guides are usually numbered by tens and twenties, and between these the folders are placed in numerical sequence. To locate any particular folder an alphabetical cross index is necessary. This index consists of cards bearing the name and the folder number of each correspondent filed behind the proper alphabetical index so that it can be located easily. The alphabetical system provides a miscellaneous folder for all correspondents with whom only one or two letters are exchanged. The advantages to be derived from opening a separate folder for each of these correspondents would hardly warrant the expense. A folder is, therefore, sometimes used for miscellaneous correspondence, and all such miscellaneous correspondence is filed in this folder under one number. This is, however, hardly a satisfactory method, and it is often found necessary or advisable to use the numerical system for the heavy correspondence and an alphabetical index for the miscellaneous items. The numerical index admits of unlimited expansion

without interference with original or current files. Cross-indexing by subjects can also be done by using a system of cross-index cards.

FILING OF ACCOUNTING RECORDS.

As the business of most cooperative organizations is, in a way, not continuous, but goes by seasons, the usual procedure is to file all records at the end of the season. Too often no provision is made for storing these files in such a way that they are readily accessible for reference.

Matters of importance other than the regular financial transactions of the business should be carefully recorded so that they will not be overlooked. Papers pertaining to claims against railroads and express companies are often placed in the regular correspondence files and are lost sight of through a change in management or clerical force. Accounts which have proven uncollectible for the time being, and have been thrown into the "profit and loss" account, are also apt to be entirely forgotten when opportunities for collecting them are presented several seasons later. Such matters should be carried in auxiliary records in small bound books or card systems, so that instant reference is afforded.

SAFEGUARDING THE CASH.

When the amount of business done by an organization justifies the practice, all mail should be opened by some person other than the cashier, and a book or sheet should be provided on which the remittances received can be listed and totaled for comparison with the cashier's deposit slip. The letters and inclosures are then turned over to the cashier for entry on the cashbook. Entries should be very explicit, especially when the item goes to the credit of a general account, as in the case of remittances covering net proceeds of goods consigned. Here the car number and shipment number (if shipments are numbered), or name of consignee and date shipped, should be given, and account of sales and correspondence supporting this item should be filed with other papers of the shipment so that the same will be easily accessible for reference and verification.

Entries not relating to the receipt or payment of money should not be recorded in the cashbook, the journal being used for such entries. The cashbook totals should represent the true amount of money handled, as well as the correct balance.

Each day's full receipts of cash should be deposited in the bank as a total so that the debit side of the cashbook will exactly equal in amount the entries on the bank pass book. Since all receipts are deposited in the bank, it necessarily follows that a check must be drawn for each disbursement of cash. (For petty expenditures, see explanation of petty cash payments, p. 12.) All returned checks

should be retained and filed in numerical order so as to afford comparison with their corresponding entries in the cashbook or check register.

As checks are frequently lost, making it necessary to issue duplicates, it is well to protect the organization against loss, as there is the possibility of both original and duplicate checks being cashed. The payee, therefore, should be required to sign a bond of indemnity for twice the amount of the check.

At the end of each month a reconciliation should be made between the cashbook or check register and the bank pass-book balances. As, from the very nature of the business, many checks are liable to be outstanding at least at the end of months during which heavy payments are made, a permanent record of these reconciliations will be found of great assistance, not only to the auditor but to the bookkeeper as well. This reconciliation can be made with very little additional work. When checks are returned from the bank they are sorted out numerically and checked off on the stub of the check book or check register, preferably with a small red-ink check mark. An adding-machine list is then made of all unchecked amounts, giving a list of outstanding checks. Notation is then made on cash book as follows:

Balance per pass book	$2,498.30
Less O/S checks	1,408.00
Balance as shown on cashbook	1,090.30

All adjustments on account of collection charges or interest credits, etc., should also be shown. The numbers of the checks are then inserted opposite the respective amounts on the adding machine list, and this list is filed with the last check drawn for the month. When reconciliation is made for the following month, the returned checks are first checked against the outstanding list of the previous month, and all unchecked items on this list are then included in the new outstanding list. This obviates the necessity of turning back each time to find the unchecked items on the check book.

All checks and receipts, sales slips, vouchers, etc., should be numbered with a numbering machine. Any that are spoiled should be marked void and left in the book.

A regular system should be used for the acknowledgment of all cash sales or miscellaneous cash items received. A receipt book with carbon, all receipts being numbered in duplicate, has many advantages over the receipt book with stub. The carbon copy remaining for office files, being an exact duplicate of the original, allows no chance for error, as may occur in rewriting the amount on a receipt stub. By a system of numbering, all receipts can be accounted for.

PETTY CASH.

Should it be necessary to keep a small amount of cash on hand to cover petty cash disbursements, the Imprest System of handling these disbursements should be adopted.

A petty cash fund should be created to liquidate items not conveniently paid by check, by drawing a check for an even amount in favor of the petty cash fund or the cashier, sufficient to meet the requirements for petty cash expenditures for a certain period, say, one week. A receipt should be taken for each disbursement, and a record of these payments should be made on a specially ruled envelope or in a petty cashbook. At all times the cashier must have in the petty cash fund the difference between the original amount of the check and the total of the items disbursed, as shown by the receipts. From time to time, as the amount of cash becomes small, the receipts are totaled and presented to the proper official for approval. A check is then drawn for the total amount of these receipts, which are charged to the proper accounts. The petty cash fund is thus restored to its original size. The receipts are then initialed and placed in an envelope, which is filed away so that the receipts are accessible for auditing at the end of the year.

THE EXPENSE ACCOUNT.

Some organizations segregate their expense items under but two or three headings, using general expense as a miscellaneous account to which all expense items not coming under one of the few specific expense headings are charged; others go to the other extreme of opening many ledger accounts to make a segregation of the expense account, thus increasing the work in the ledger materially both in posting and in abstracting the trial balance. A better plan is to provide but one column for expense in each book of original entry, where needed, notation being made in the "Explanation" column indicating the segregation to be made. For the distribution of these items, a columnar book large enough to allow a column for each account is used, the headings being inserted for such segregations as desired, such as salaries, labor, inspector's expense, postage, advertising, telegrams and telephone, repairs, office supplies, and stationery.

It is not enough to show that certain disbursements were made on account of expense, but proper segregation should be made in order to show the expenditures for each class. This is especially true of subclassifications kept for statistical use, and comparisons of one year with another. These comparisons are useless unless all charges are entered under similar heads from year to year.

RESERVE FOR DEPRECIATION.

The generally accepted definition of a reserve is an amount set aside for a special purpose, such as a "reserve for depreciation." By depreciation is meant the ordinary wear and tear which occurs to assets used in any enterprise.

The true condition of an organization is not shown accurately upon the books unless provision is made for depreciation of assets. Regardless of repairs, ordinary wear and tear will occur and must be provided for by depreciation. The wear and tear of an asset is just as much a part of the cost of doing business as the cost of labor.

The extent of depreciation should be estimated as closely as possible and credited to a "reserve for depreciation" account at the time the books are closed for the year. This will decrease the net profit by the amount of depreciation, and set aside amounts to replace the assets out of the earnings. Supplies carried over are just as subject to depreciation as any fixed asset.

To provide properly for depreciation, "reserve for depreciation" account should be credited and "profit and loss" debited with the proper amount. The apportionment of this amount from one year to another should be on the same equitable basis. The simplest method of computing the annual rate at which depreciation may be charged off is on a fixed percentage of the original value, which would spread the depreciation equally over the life of the asset. A better method however, and one in which the apportionment of this amount from one year to another is made on a more equitable basis is by computing the depreciation on a basis of a fixed percentage on the diminishing value. This makes the charge heavier in the earlier years, the amount being reduced gradually from year to year. The cost of repairs is greater in later years, and by charging off a fixed percentage the cost of operating is equalized. This method also leaves a small residual value, since the entire cost can never be fully taken up, therefore this is the method generally adopted.

For example: Suppose an organization has machinery for which its books show it paid $5,000. It is decided to carry 10 per cent of the remaining balance of this account to a "reserve for depreciation on machinery" account. The following entry is made in the journal:

Profit and loss	$500	
Reserve for depreciation on machinery		$500

This transfers $500 of the profits to be used in replacing the machinery.

On the balance sheet, however, "reserve for depreciation on machinery" should be deducted from the original cost of the machinery, instead of showing the machinery as an asset of $5,000 and the depreciation as a liability of $500.

This item therefore appears on the balance sheet as follows:

Machinery	$5,000
Less reserve for depreciation of machinery	500
	4,500

The bookkeeper should, however, keep in mind in this connection the importance of distinguishing between repairs and improvements.

An *improvement* signifies that which adds value to the property. This addition may, but does not necessarily, increase the earning power of the property.

Repairs involve such expenditures as are necessary to keep the property to which they are applied in its original condition or appearance.

If any additions or improvements are made, they are chargeable to the asset account affected. For instance, if a machine costing $1,000 is replaced by another costing $1,500, the machinery account should be debited with the cost of the new machine and an entry should be made crediting "machinery" account and charging "reserve for depreciation" with cost of old machine.

Repairs are chargeable against earnings. Thus, the first painting of a building is considered cost, while a subsequent one is simply for the purpose of maintaining it, and is chargeable to repairs.

The following yearly rates of depreciation can be used in the above method of reducing the balance of the asset:

	Per cent.
Brick and reinforced buildings	2½
Frame buildings well constructed	5
Office equipment and fixtures	10
Engines	7 to 12
Boilers	10
Shaftings, pulleys, and hangings	5 to 8
Machinery	7 to 10
Tools	25

Tools should be limited on the books to half of their estimated life.

By making the proper charges each year for depreciation, as outlined above, the true value of the assets is not only shown, but provision is made for the replacement of these assets, which is essential in such organizations as creameries, cheese factories, canneries, cotton gins, packing houses, etc., where a considerable amount of the assets are subject to wear and tear.

DIVIDENDS.

The generally accepted definition of a dividend is a sum set aside by formal action of the board of directors out of profits available, to be divided among the stockholders and members. The method of distribution will depend of course entirely upon the plan of organi-

zation. Where the organization is formed as a stock company pure and simple, the dividend is apportioned to each stockholder on the basis of the amount of stock held by each. In strictly cooperative organizations a dividend is generally paid to stockholders at a rate to provide reasonable interest on the investment. The balance of the profits are prorated back to the members in proportion to the total amount of business done by each during the season. The amount paid as a fixed dividend on stock naturally will vary with the interest rates of different localities. In some cooperative organizations no dividend on stock is paid, but the entire profit is divided pro rata among the members, according to the amount of business done by each with the organization.

To be valid, dividends must be declared out of the organization profits—that is, out of the balance remaining after all current expenses of operating are paid, and fixed charges, which include amounts set aside as surplus and for depreciation, are provided for. Power to declare dividends is vested in the directors.

The real purpose of a cooperative organization for marketing farm products should be to obtain the highest possible price for products delivered to the organization, and to furnish supplies to members at a charge as near cost as possible, there being collected only a sufficient charge above the actual working cost to provide for an increase in working capital. If this is done, dividends to members will be cut to a minimum.

Some organizations return to the members the full amount received for the product, less actual expenses, withholding only a small amount for emergencies, this amount going into a fund to cover any possible losses during the year. The balance of this fund is rebated to the members at the end of the year, pro rata to the amount of business done.

The best plan is to allow invested capital a reasonable amount of interest, set up a surplus fund to increase the working capital if desired, but above these charges to return to the members, at the time statements are made, the total amount received for their product less actual expenses and the amount set aside for surplus.

TRIAL BALANCE BOOK.

In order to preserve the trial balance some bookkeepers prefer to open up a trial balance book. This book is ruled with a folio column, name column, and numerous money columns, usually 12, accommodating 6 trial balances on a double page. In this way it is necessary to write the headings of the accounts but twice a year.

The trial balance book can also be made in another form, with alternate long and short sheets, the long sheets extending beyond the margin of the short sheets the width of the name column. The

names of the accounts are written on this extension and as it overlaps the second sheet the accounts have to be written but once a year.

NECESSITY OF TAKING MONTHLY TRIAL BALANCE.

Many organizations, due to the rush of business during the heavy selling season, fail to take the necessary trial balances. This is a practice which should be discouraged, for it is of the utmost importance that a trial balance be taken, and it should not be set aside until it balances.

A discrepancy in the trial balance means one or more errors of unknown size. No office manager can afford to allow errors of any kind to run on from month to month in the hope that they will be found during a lull in business operations. If there are errors in the books, they can not be depended upon to show the true condition of the business.

The greater the amount of business transacted, the more important the trial balance becomes. Errors should be hunted out immediately if they are known to exist, and there is no quicker way to find mathematical errors than through the trial balance.

SURPLUS.

Surplus indicates a portion of the profits withheld from distribution, or the accumulation by special assessments, for the purpose of establishing an addition to the working capital of the organization. It may be put to any use for which capital is needed.

Cooperative organizations should make arrangements to set aside specific amounts, or a percentage of profits, for the increase of working capital. As an organization grows, more capital is required to take care of the increase in business properly. The capital obtained at the outset in most cooperative organizations is barely enough to carry the business through from year to year. Frequently money is borrowed upon the security of directors to tide the organization over the busy periods when large amounts are required. The best way to put an organization on a sound financial basis is to secure a sufficient working capital to provide for ordinary working needs and thus free the organization from any necessity of managing on insufficient funds.

After the organization has once been established on a sound financial basis, loans, when needed, can be made on the credit of the organization without compelling the directors to become personally liable. It can be said that with but few exceptions cooperative organizations in this country do more business on less capital than any other class of business enterprises. This condition in many cases curtails the management to such an extent that it is impossible to secure the advantages for the members that could be obtained with

sufficient working capital. A very satisfactory way of accumulating a surplus is to levy a special charge per unit on the commodities delivered by the members, this amount to be set aside as an addition to the capital.

PREPARATION OF ANNUAL STATEMENTS.

The statements usually submitted by the treasurer to the members at the annual meetings are the balance sheet, the profit and loss statement, and the statement of expenses. These statements are for the purpose of showing the members the condition of the business at that time, the progress made during the year, and the expenses incurred. Therefore, they should be so prepared as to be readily comprehensible to the rank and file of the membership unaccustomed to reading such statements.

THE BALANCE SHEET.

The balance sheet (Form I) is a statement of the assets and liabilities of a business at a particular time. It is made up of the debit and credit balances remaining on the various accounts after the books have been "closed." Accountants do not agree as to the arrangement of the various items on the balance sheet, some starting with the most liquid and working toward the most fixed; others reversing this order. Either method is good, but it should be followed out on both sides so as to bring the most liquid assets opposite the most liquid liabilities and continuing in such a way as to bring the most fixed assets directly opposite the capital.[1]

FORM I.—*The balance sheet.*

THE YORKVILLE PRODUCE EXCHANGE.

BALANCE SHEET AS OF DEC. 31, 1914.

ASSETS.			LIABILITIES.		
Cash on hand	$30.00		Accounts payable		$250.00
Cash in bank	1,360.00		Bills payable		2,000.00
		$1,390.00	Capital and surplus:		
Bills receivable		340.00	Capital stock		8,190.00
Accounts receivable	2,000.00		Surplus—		
Less reserve for bad debts	60.00		Balance as of Dec. 31, 1913	$300.00	
		1,940.00	Net profit for year	540.00	
Merchandise inventory as per schedule		3,000.00			840.00
Furniture and fixtures	$800.00				
Less reserve for depreciation	40.00				
		760.00			
Buildings	3,000.00				
Less reserve for depreciation	150.00				
		2,850.00			
Land		1,000.00			
		11,280.00			11,280.00

[1] Another class of items which should appear on the balance sheet are "deferred charges," representing expenses paid but not chargeable against the period under consideration. As, for example, the stationery, office supplies, stamps, etc., on hand will be used during the next fiscal period and therefore are chargeable against the profits of that period. Other items such as "interest paid in advance," "insurance premiums prepaid," "rent paid in advance," etc., should all be taken into consideration.

THE PROFIT AND LOSS STATEMENT.

This statement presents in explanatory detail the gross profit made during the year and the expenses and losses incurred, it being a transcription of the "profit and loss" account on the ledger, and discloses the way in which the "net profit" or "net loss" appearing on the balance sheet is obtained. (Form II.)

FORM II.—*Profit and loss statement.*

Merchandise gross profit		$2,255.00
Commission		3,510.00
Expense (per itemized statement)	$4,900.00	
Interest and discount	75.00	
Reserve for depreciation	190.00	
Reserve for bad debts	60.00	
Balance to surplus	540.00	
	5,765.00	5,765.00

THE EXPENSE STATEMENT.

The monthly totals appearing under the different headings in the expense book should be added and an itemized statement of expenses made. This will give in detail the expenses incurred during the year. (Form III.)

FORM III.—*Itemized statement of the expense account.*

Salaries	$2,300.00
Labor	400.00
Traveling expenses	45.00
Taxes	29.00
Insurance	18.00
Office supplies and stationery	118.00
Advertising	260.00
Telegrams	460.00
Telephone	320.00
Postage	246.00
Light, heat, water, and ice	162.00
Painting and repairs	230.00
Garage	----------
Cartage	56.00
Directors' fees	110.00
Auditors' salaries	100.00
Rent	----------
Miscellaneous	46.00
Total	4,900.00

AUDITING.

The purposes of an audit are for protection against fraud, for the detection of errors and omissions, also to determine if the business is conducted along the most economical lines and in accordance with

statute and constitutional provisions of the organization, and for a certification to the correctness of assets, liabilities, and losses and gains as shown by the financial statement. Such an audit also helps in maintaining the highest financial standing, furnishing evidence of the organization's safety and prosperity. Auditing by a competent accountant not only tests the accuracy of the accounts but it secures an analysis of the business which promotes practical economy, in that the results of the year's business, as shown by the accounts, will display any weaknesses in the methods of operation and any needless or excessive expenditures. No one thing connected with the business of any corporate body is more important than the proper auditing of the accounts.

A great many cooperative organizations are inefficient in the matter of auditing, and every organization should provide for a system of internal audit, which can be carried on by a committee of the directors or members, and for an external audit, which should be made at least once a year, such external audit to be made by an expert accountant.

INTERNAL AUDIT.

For the internal audit it is usually customary for a committee of two, appointed by the board of directors from among themselves or the members, to come into the office each month and make as thorough an examination as possible of the receipts and expenditures, and note the general policy in carrying on the business. Such a committee audit brings the directors into closer touch with the policy of the management and has a tendency to make them feel a more direct responsibility. This examination will do much toward instilling confidence and keeping the business open to the members through the monthly reports of this committee.

For the internal audit, the larger organizations have an efficient office man who is regularly employed and who carries on a continuous internal audit. This is an excellent arrangement when the amount of business done by the organization warrants the expense.

EXTERNAL AUDIT.

The number of defalcations in business organizations occurring annually may be traced frequently to the fact that no audits by competent parties were made. The internal audit by a committee has many advantages, but is incomplete and not sufficient in itself as a protection against fraud nor for the proper analysis of the accounts. It is therefore necessary that an audit conducted by an expert public accountant be made at least once each year.

Many organizations have incorporated in their by-laws a clause requiring the employment of a public accountant to make a thor-

ough audit of the year's business before the annual meeting. Should the expense of a public accountant be prohibitive owing to the small amount of business transacted, a person who is thoroughly competent to carry on an audit should be employed, preferably some business man of high standing in the community who is not interested financially or otherwise in the organization.

AUDITING CIRCLES.

In the grain and dairying sections there are great numbers of cooperative elevators and cooperative creameries within a radius of a few miles. If each of these organizations were to employ an expert accountant to audit the books the cost would probably be excessive. Small associations or circles could be formed, however, by the cooperative organizations within a certain radius, who could enter into a contract with a competent auditor to do the auditing for all of the organizations. Such an arrangement would bring the services of an expert auditor to the organizations at a comparatively small cost.

CONCLUSION.

It is not unusual to read in a report concerning the failure or suspension of a business concern, that not until experts have been at work upon the accounting records for several days or weeks can the exact condition of the assets and liabilities be ascertained, or the amount of loss be discovered. The frequency with which this statement is made naturally suggests a connection between accounting and success. This connection will be found, on examination, to be existent in a large proportion of all business failures.

The accounting problems connected with the cooperative organizations in the United States generally do not receive the attention they deserve. The accounting system of any organization has a far-reaching effect upon the success or failure of the enterprise and upon the rights of the members interested therein. It is therefore necessary for the greatest success that the accounting system of any business enterprise be based upon the proper fundamental principles and conducted with the maximum degree of efficiency.

SUMMARY.

1. For the successful conduct of a cooperative business enterprise a complete business system is essential. Accounting records form a most important part of any business system.

2. A business system may be defined as a prearranged plan of operation governed by the general laws of business practice.

3. Bookkeeping may be defined as the systematic and chronological recording of financial transactions.

4. The double-entry method is the best for keeping any set of books, as it allows an equalization of debits and credits which affords a complete check on all entries.

5. The great number of books now used in recording financial transactions are forms of the journal and ledger, and the principles of double entry should apply to all books used for the recording of financial transactions.

6. It is of the utmost importance that a trial balance be taken each month. The trial balance is the best method of proving the mathematical accuracy of the books.

7. A convenient method of preserving the trial balance for future reference is that of using a trial-balance book.

8. Essential requirements for a system of accounting records for a cooperative marketing organization are—

(*a*) A complete set of financial records showing the business transactions and the results thereof.

(*b*) A record of each member's transactions with the organization.

(*c*) Capability of taking care of a maximum amount of business during the shipping season.

(*d*) Capability of returning to the members the proceeds from their products within a reasonable time.

(*e*) Clear pooling records when kept, so that any discrimination can be shown quickly.

(*f*) Auxiliary records which will give statistics and valuable information for the conduct of the business. These records must be accurate.

9. No two cooperative organizations are exactly alike. It is necessary, therefore, that a system of accounts, to be most successful, be devised to fit the business for which it is intended.

10. Care should be exercised in devising columnar forms, in order that columns which will be used rarely are not added, making the forms cumbersome. All statements showing returns or ledger accounts to growers should be so headed and constructed that they may be perfectly plain and intelligible at first glance.

11. There are numerous labor-saving devices for reducing the cost of accounting which may be used to great advantage by cooperative organizations.

12. Every cooperative organization should have an accountant who is thoroughly familiar with the business, in order that he may conduct the office properly.

13. Minutes in proper form of all stockholders' or members' and directors' meetings should be kept.

14. Notice of meetings should be regulated by the by-laws. Notice by publication and through the mail are the most common and best methods.

15. By-laws should contain measures of safety to regulate the handling of all organization funds.

16. Surety bond should be had for all employees handling funds.

17. A good system of filing for correspondence is essential for every office.

18. Proper filing of accounting records is necessary, in order that instant reference may be afforded and that valuable information regarding claims, accounts receivable, etc., may not be lost.

19. A regular system for safeguarding the cash should be adopted by all officers, and adhered to strictly.

(*a*) All entries of cash should be explicit, and items supporting such entries should be filed so that they are accessible for reference and verification.

(*b*) No entries should be recorded in the cashbook which do not relate to cash.

(*c*) The full receipts of each day should be deposited in the bank.

(*d*) All canceled checks should be filed in numerical order.

(*e*) Duplicate checks should always be covered by indemnity bonds.

(*f*) Reconciliation should be made each month between cash or check register and bank pass-book balances.

(*g*) Permanent record of these reconciliations should be made.

(*h*) Checks, sales slips, receipts, etc., should be numbered with a numbering machine. Any which are spoiled should be marked void and left in the book.

(*i*) A regular system should be used for the acknowledgment of all cash sales, or miscellaneous cash items received.

20. All petty cash payments should be made on the Imprest System.

21. A good plan for handling expense items is to carry a general expense account, making a segregation in a columnar book.

22. The wear and tear on an asset is a cost of doing business, and the true condition of a business is not shown accurately upon the books unless provision is made for depreciation in the value of the assets. The extent of depreciation should be estimated as closely as possible, and an amount to cover credited to a reserve for depreciation account at the end of the year. This allows for the replacement of the assets.

23. Cooperative organizations should make arrangements to set aside specific amounts, or a percentage of profits, for the increase of working capital.

24. Annual statements should be prepared in such form as to be readily comprehensible to all members. These statements should be

in such detail that all expenditures are itemized properly and profits shown in such a way that it is easy to determine just where they originated.

25. No one thing connected with the business of any cooperative body is more important than the proper auditing of accounts. Both an internal and external audit should be made at regular and frequent intervals. The internal audit is generally conducted by a committee of the members. The external audit should be made by an expert accountant and should be complete.

26. Auditing circles can be formed to great advantage when there are several cooperative organizations in the same territory.

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